

SUMMARY OF PROPOSED REVISIONS
IN HIGHWAY USER EXCISE TAXES
AND EXTENSION OF HIGHWAY TRUST FUND
UNDER ADMINISTRATION PROPOSAL (S. 3044)
AND HOUSE BILL (H. R. 6211)

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INTRODUCTION

This document provides a summary description of the Administration's bill to revise the highway user excise taxes and extend the Highway Trust Fund (in S. 3044), and a summary of the House bill revenue provisions (in H. R. 6211).

The first part of the document is a brief summary of present law highway user excise taxes and the rate reductions now scheduled for October 1, 1984. The second part is a summary of the Administration proposal. The third part is a summary of the House bill provisions. In addition, there is a separate side-by-side comparison of present law, the Administration bill, and the House bill, as well as revenue tables (JCX-49-82).

I. PRESENT LAW HIGHWAY EXCISE TAXES

A. Overview and Background

Overview

Under present law, excise taxes are imposed on certain motor fuels, lubricating oil, trucks, truck parts, tires and tubes, tread rubber, and heavy highway vehicles. After September 30, 1984, these excise taxes are scheduled to decline generally to pre-Trust Fund rates or to expire. (See Table 1 for a list of the present and scheduled tax rates.)

Revenues from these excise taxes currently are deposited in the Highway Trust Fund. Under present law, these revenues will continue to be deposited in the Trust Fund until October 1, 1984, at which time revenues from the remaining highway excise taxes (generally at reduced rates) will go into the general fund of the Treasury (as they did prior to the enactment of the Trust Fund in 1956).

Background

The Highway Trust Fund and the related highway excise taxes were last extended by the Highway Revenue Act of 1978,¹ at which time the extension was for 5 years, or from October 1, 1979 through September 30, 1984. The 5-year extension was added by the tax committees as a separate title to a highway authorization bill and generally involved only the extension of existing highway excise taxes and tax rates.

The 1978 Act made one change in the application of the fuels taxes by providing a temporary exemption through 1980 (later extended to December 31, 1982) for fuel used in qualified taxicab services. Such use is exempt (via refund or credit) where ride sharing is not prohibited by law or by company policy and for model 1978 or later taxicabs which meet fuel economy standards (sec. 6427(e)).

The 1978 Act also modified the prior anti-deficit provision (the so-called "Byrd amendment") to require that when anticipated Trust Fund revenues are insufficient to cover projected expenditures from existing unpaid authorizations, reductions will be made on a pro rata basis to all apportioned highway funds, rather than to Interstate apportionments only.

¹ Title V of the Surface Transportation Assistance Act of 1978 (P.L. 95-599).

In addition, the 1978 Act required that two studies be made: (1) a cost allocation study to be conducted by the Department of Transportation, with a final report to Congress by January 15, 1982; and (2) a study of the highway excise tax structure to be conducted by the Treasury Department, with a final report to Congress by April 15, 1982.²

² The cost allocation study was submitted to the Congress on May 13, 1982: "Final Report on Federal Highway Cost Allocation Study." The final Treasury report on the highway excise tax structure has not yet been submitted. (A second progress report was submitted by the Secretary of the Treasury on October 1, 1981.)

B. Present Law Tax Rates

The following is a summary of present highway-related excise tax rates.

TABLE 1.—CURRENT HIGHWAY USER EXCISE TAXES AND SCHEDULED RATES OF TAX UNDER PRESENT LAW

Tax	Rate of tax, present law	
	Before Oct. 1, 1984 ¹	After Sept. 30, 1984 ²
<i>Petroleum products:</i>		
Gasoline.....	4 cents/gallon	1.5 cents/gallon.
Diesel fuel.....	4 cents/gallon	1.5 cents/gallon.
Special motor fuels....	4 cents/gallon	1.5 cents/gallon.
Lubricating oil	6 cents/gallon	6 cents/gallon.
<i>Trucks and truck parts:</i>		
Trucks and trailers ...	10 percent of manufacturer's sale price.	5 percent of manufacturer's sale price.
Parts and accessories.	8 percent of manufacturer's sale price.	5 percent of manufacturer's sale price.
<i>Tires, tubes and tread rubber:</i>		
Tires for highway vehicles.	9.75 cents/pound	4.875 cents/pound.
Laminated tires	1 cent/pound.....	1 cent/pound.
Other tires	4.875 cents/pound	4.875 cents/pound.
Inner tubes	10 cents/pound	9 cents/pound.
Tread rubber	5 cents/pound	No tax.
<i>Use tax on heavy vehicles</i>	\$3 per 1,000 pounds per year, if more than 26,000 pounds.	No tax.

¹ Revenues are deposited into the Highway Trust Fund.

² Revenues would be deposited into the general fund of the Treasury, unless the Trust Fund is extended.

II. SUMMARY OF ADMINISTRATION PROPOSAL
(S. 3044)

A. Highway User Excise Tax Revisions

Table 2, following, lists the highway user excise tax rates under the Administration proposal. The specific tax changes are summarized below.

1. Motor Fuels Tax

Increase in tax rates.--The Administration proposal would increase the rates for the excise taxes imposed on gasoline, diesel fuel, and special motor fuels¹ from the present law 4-cents-per-gallon rate to 9 cents per gallon.

The increased taxes would apply to taxable fuels sold or used after March 31, 1983, and before April 1, 1990.

Continuation and modification of motor fuels tax exemptions.--The Administration proposal would continue at the new 9-cents-per-gallon tax rates the present law exemptions from the motor fuels taxes for fuels used by a State or local government, for sales for export, for use by a nonprofit educational institution, and for a fuels mixture (gasohol) which contains at least 10 percent alcohol of 190 proof. The present law exemptions for nonhighway use in farming and as supplies for vessels or aircraft would be continued at the new 9-cents-per-gallon rates.

The present law exemptions for fuels used by school buses and intercity or local buses furnishing public transportation for compensation would be modified to provide exemption from 4 cents per gallon of the taxes rather than exemption from the entire 9-cent-per-gallon tax rates. Additionally, the exemption for certain qualified taxicab use would be continued beyond 1982 at a 4-cents-per-gallon rate.

Further, the Administration proposal would expand the partial exemption in present law for motor fuels used in a "qualified business use" to permit exemption from the entire 9-cents-per-gallon tax rates.²

¹Special motor fuels are benzol, benzene, naptha, liquefied petroleum gas, casinghead and natural gasoline, or any other liquid (other than kerosene, gas oil, fuel oil, gasoline taxed under Code sec. 4081, or diesel fuel taxed under sec. 4041(a)).

²A qualified business use is a use in a trade or business or otherwise for the production of income in a vehicle not required to be registered for highway use or use in a highway vehicle owned by the United States.

2. Taxes on Trucks, Trailers and Truck Parts

Under the Administration proposal, the manufacturers excise tax on trucks and other heavy highway vehicles would be increased from 10 percent to 12 percent of the selling price. The current exemption for vehicles which weigh 10,000 pounds or less would be raised so that this tax would not apply if the gross vehicle weight were 33,000 pounds or less.

The proposal also would increase the manufacturers excise tax on parts and accessories for trucks and other heavy highway vehicles from 8 percent to 12 percent of the selling price. However, this tax would not apply if the part or accessory is suitable for use and is ordinarily used on a vehicle having a gross vehicle weight of 33,000 pounds or less.

These modifications would be effective for trucks, other heavy highway vehicles and parts and accessories for such vehicles sold after March 31, 1983. There would, however, be a refund of tax allowed for a taxable item for which the tax would no longer apply for sales after November 28, 1982, and before April 1, 1983. (See item 6, following, relating to floor stocks refunds.)

3. Use Tax on Heavy Vehicles

Under the Administration proposal, the amount of tax imposed on the use of a highway vehicle would depend on its taxable gross weight, according to the following 4-bracket structure:

<u>Taxable gross weight</u>	<u>Annual use tax</u>
Under 55,000 pounds	No tax
55,000 to 70,000 pounds	\$100 plus \$6 per 100 pounds (or fraction thereof) over 55,000 pounds
70,000 to 80,000 pounds	\$1,000 plus \$17 per 100 pounds (or fraction thereof) over 70,000 pounds
80,000 pounds or more	\$2,700

However, a vehicle would be exempted from tax for a taxable year during which its highway use is expected to be under 2,500 miles.

Generally, taxable gross weight would be the highest gross vehicle weight declared for purposes of registering a vehicle in any State where the vehicle is registered or required to be registered. In the event that State registration is not required for a vehicle, its taxable gross weight would be determined as under present law.

These modifications to the highway use tax would apply to uses occurring after June 30, 1983.

The proposal also would direct the Secretary of Transportation (in consultation with the Secretary of the Treasury, State officials, motor carriers and other affected parties) to study alternative forms of the use tax, to devise a plan for the better administration of the tax, and to report findings and recommendations to Congress within 2 years. Further, States would be authorized to assist in enforcement of the Federal highway use tax.

4. Taxes on Tires, Tread Rubber and Inner Tubes

Tires and tread rubber.--Under the Administration proposal, the excise taxes on tires and tread rubber would increase to 25 cents per pound from present law rates of 9.75 (highway-type tires) and 5 cents per pound, respectively. The 25-cents-per-pound tax on new highway-type tires, however, would apply only to tires that weigh more than 100 pounds. The changes would be effective for sales after March 31, 1983.

Inner tubes.--The present law tax on inner tubes would be repealed for sales after March 31, 1983.

5. Tax on Lubricating Oil

The Administration proposal would repeal the present excise tax on lubricating oil, effective for sales after March 31, 1983.

6. Floor Stocks Taxes and Refunds

Floor stocks taxes.--The Administration proposal would impose special floor stocks taxes on items held in inventory on April 1, 1983, on which tax was paid at a lower rate than the new rates. The floor stocks taxes would be equal to the excess of the new tax rates over the previous rates for the taxable item involved. Thus, for example, a floor stocks tax of 5 cents per gallon would be imposed on gasoline held for sale by a dealer on April 1, 1983.

Floor stocks refunds.--The Administration proposal would provide for refund of (or credit for) tax paid on items held in inventory on April 1, 1983, for which tax was paid at a higher rate than would be in effect on and after that date. In addition, the proposal would provide for refunds to consumers of tax paid on trucks and trailers which are purchased after November 28, 1982, and before April 1, 1983, and for which the tax would be repealed by the increase in the taxable threshold for the manufacturers tax on trucks, and trailers, and on parts and accessories for such vehicles.

7. Sunset of Certain Exemptions from Taxes

The present exemptions from the Highway Trust Fund excise taxes for items used by State and local governments and for certain items used by intercity and other buses would be terminated on April 1, 1990. The other exemptions provided by present law would not be affected by this sunset provision. (I.e., the present sunset date of December 31, 1992 for the alcohol fuels tax exemption would remain, and the exemption for farming use would continue indefinitely.)

Table 2. Highway User Excise Tax Rates Under Administration Proposal

<u>Item</u>	<u>Tax Rate</u> ¹
<u>Petroleum products</u>	
Gasoline	9 cents per gallon
Diesel and special motor fuels	9 cents per gallon
Lubricating oil	No tax
<u>Trucks and truck parts</u>	
Trucks and trailers	12 percent of mfrs. sales price, if over 33,000 pounds gross vehicle weight (GVW)
Truck parts	12 percent of mfrs. sales price, if customarily used on trucks of over 33,000 pounds GVW
<u>Tires, Tubes and tread rubber</u>	
Highway tires	25 cents per pound, if over 100 pounds
Laminated tires	1 cent per pound
Other nonhighway tires	4.875 cents per pound
Inner tubes	No tax
Tread rubber	25 cents per pound
<u>Heavy vehicle use tax</u> ²	
Under 55,000 pounds	No tax
55,000-70,000 pounds	\$100, plus \$6/100 pounds in excess of 55,000
70,000-80,000 pounds	\$1,000, plus \$17/100 pounds in excess of 70,000
Over 80,000 pounds	\$2,700

¹Tax changes generally effective on April 1, 1983.

²Tax change effective on July 1, 1983. Vehicles travelling less than 2,500 miles per year would be exempt from the tax.

B. Highway Trust Fund Extension/Transit Account

1. Extension of Highway Trust Fund

Under the Administration proposal, the Highway Trust Fund would receive designated highway excise taxes incurred through March 31, 1990, and expenditures for authorized purposes could be made from the trust fund through September 30, 1991. Present statutory requirements for reports to Congress on investigations and studies of an equitable distribution of the tax burden among the various users of the Federal-aid highways would be repealed.

2. The Transit Account

Within the Highway Trust Fund, there would be established a new Transit Account. Amounts equivalent to 1 cent per gallon of the diesel fuel, special motor fuels, and gasoline excise taxes (under secs. 4041(a) and (b) and 4081) would be deposited into this account. These amounts would be spent as appropriated for urban mass transportation capital programs, under the provisions of section 22 of the Urban Mass Transportation Act of 1964. Interest on obligations held in the Transit Account would be credited to the account. Repayable advances would be authorized for appropriation to the Transit Account so that it could make expenditures for authorized purposes. The advances would be repaid with interest on the amount advanced.

III. SUMMARY OF HOUSE BILL REVENUE TITLE TO H.R. 6211

The House bill extends the Highway Trust Fund through September 30, 1988, provides revenue sources for it, and establishes a new transit account in the trust fund.

Under present law, transfers of highway excise tax revenues and the authority to expend from the Highway Trust Fund will expire after September 30, 1984. The House bill extends the trust fund's expiration date by four years, through September 30, 1988.

The taxes that provide the revenues for the trust fund generally expire or revert to lower rates after September 30, 1984. The House bill increases the annual revenues into the trust fund by extending some of the taxes at higher levels through September 30, 1988, and by repealing or modifying other provisions. The House bill changes the distribution of the cost burden by shifting a larger share to the heaviest trucks on the highways and reducing the share paid by lighter trucks. These cost burden shifts are consistent with the highway cost allocation study submitted to Congress by the Department of Transportation in May.

The specific changes are summarized below.

Tax Provisions

Motor fuels taxes.--The House bill increases the excise tax rates to 9 cents a gallon, beginning on April 1, 1983, through September 30, 1988. Complete exemptions from the 9 cents a gallon tax are provided for State and local governments, nonprofit educational groups, farm use, school buses, local and intercity transit buses, off-highway business use, and alcohol fuels (other than those derived from petroleum). Exemptions from the present law 4 cents a gallon excise tax are continued at that level for qualified taxicabs (through fiscal year 1984) and gasohol. Ground applicators of fertilizer, pesticides and herbicides are made eligible for refunds of fuel taxes for farm use, under the same terms as are aerial applicators.

All the fuels taxes and the exemptions from them will terminate after September 30, 1988. The 9 cents tax on recreational motor boat fuel is transferred to the Land and Water Conservation Fund, and \$45 million (instead of \$20 million as in present law) is transferred to the Recreational Boating Safety and Facilities Fund, which is extended through fiscal year 1988.

Tires, tubes and tread rubber.--The House bill repeals the taxes on inner tubes, laminated tires and all nonhighway tires. The tax also is repealed on highway tires weighing 100 pounds or less and on tread rubber used to retread tires of the same size. Highway tires weighing more than 100 pounds are taxed 25 cents a pound, and tread rubber used on tires of the same size also is taxed at 25 cents a pound.

The changes in these excise taxes will become effective on January 1, 1984, and will expire on October 1, 1988.

Lubricating oil.--The House bill repeals this tax on the day after the date of enactment.

Trucks and truck parts.--The tax on truck parts and accessories is repealed. The taxes on new trucks and trailers are increased to 12 percent. In addition, this tax will be imposed at the retail level on the retail price, rather than at the manufacturers' level. The weight threshold for these taxes is increased from 10,000 pounds to 33,000 pounds for trucks and to 26,000 pounds for trailers. Roadrailer trailers are exempt from the tax.

The repeal of the parts and accessories tax and the increased threshold for the tax on trucks between 10,000 and 33,000 pounds and trailers less than 26,000 pounds are effective on the day after the date of enactment. The shift of the truck tax to the retail level and the increase from 10 percent to 12 percent are effective April 1, 1983.

Heavy vehicle use tax.--The House bill adopts a graduated vehicle use tax that begins at 33,000 pounds. Trucks below that weight level pay no tax. At 33,000 pounds, trucks will pay \$60, and heavier trucks will pay an additional \$20 for each added 1,000 pounds up to 55,000 pounds. Thus, under this rate schedule a 55,000 pound truck will pay an annual use tax of \$500. Trucks weighing between 55,000 and 80,000 pounds will pay \$500 plus \$60 for each 1,000 pounds over 55,000 up to \$2,000, which is the maximum annual use tax on heavy trucks. The new schedule goes into effect on January 1, 1984.

In addition, an exemption (or refund) will be provided for trucks that travel less than 2,500 miles in a taxable period. These changes are effective on January 1, 1984. As proposed by the Administration, beginning January 1, 1985, States are to require proof of payment of the federal tax before registering trucks in the State.

Sunset of taxes.--All the highway user excise taxes, as well as the exemptions from the taxes, expire on October 1, 1988.

Motor Carrier Operating Rights.--The House bill provides that the basis adjustments applicable under the Economic Recovery Tax Act of 1981 to corporate taxpayers acquiring certain motor carrier operating authorities shall also apply to noncorporate taxpayers acquiring such rights.

Trust Fund/Transit Account

Highway Trust Fund.--The Highway Trust Fund provisions are extended through September 30, 1988. The taxes that will be deposited into the trust fund, and the authority to spend from the trust fund, terminate after September 30, 1988.

The House bill transfers statutory authority for the trust fund to the Internal Revenue Code. Authority to spend from the trust fund is provided for the general trust fund expenditure purposes which are authorized by law as of December 31, 1982.

The anti-deficit provisions of the "Byrd amendment" are modified and clarified. As a result, unfunded trust fund authorizations may not exceed two years of anticipated trust fund receipts. Authority for repayable advances from the Treasury is repealed.

Transit.--The equivalent of one cent a gallon of the fuels taxes will be deposited in a new separate account in the Highway Trust Fund. These deposits may be used only for transit capital programs, including new starts, that are authorized in section 3 of the Urban Mass Transit Act, as amended by H.R. 6211 and subsequent acts of Congress. This account is limited to unfunded authorizations in anticipation of only one year's revenues. Repayable advances are not permitted.

TABLE 5
COMPARISON OF CURRENT HIGHWAY USER EXCISE TAXES
AND THOSE APPROVED BY THE COMMITTEE ON WAYS AND MEANS

<u>Tax</u>	<u>Present Law</u> <u>(Before Oct. 1, 1984)</u>	<u>Ways & Means Committee</u> <u>Approved Rates</u>
A. Fuels:		Effective Apr. 1, 1983:
Gasoline	4 cents/gallon	9 cents/gallon
Diesel fuel	4 cents/gallon	9 cents/gallon
Special motor fuels	4 cents/gallon	9 cents/gallon
B. Lubricating oil	6 cents/gallon	Repeal <u>1/</u>
C. Truck and truck parts:		
Trucks and trailers	10 percent of manu- facturer's sale price for trucks and trailers over 10,000 lbs.	12 percent on retail sale price for trucks over 33,000 lbs. and trailer over 26,000 lbs. <u>2/</u>
Parts and accessories	8 percent of manu- facturer's sale price	Repeal <u>1/</u>
D. Tires, tubes and tread rubber:		Effective Jan. 1, 1984:
Tires for highway vehicles	9.75 cents/pound on all highway tires	25 cents/lb. for tires ov 100 lbs.
Laminated tires	1 cent/pound	Repeal
Other tires	4.875 cents/pound	Repeal
Inner tubes	10 cents/pound	Repeal
Tread rubber	5 cents/pound for tires of all weights	25 cents/lb. for use on tires over 100 lbs.
E. Use tax on heavy vehicles	\$3 per 1,000 pounds per year, if more than 26,000 pounds	0-33,000 lbs. no tax <u>3/</u> 33,000-55,000 lbs. \$60 pl \$20/1,000 lbs. in exces of 33,000 lbs. 55,000-80,000 lbs. \$500 p \$60/1,000 lbs. in exces of 55,000 lbs. over 80,000 lbs. \$2,000

1/ Effective day after date of enactment.

2/ The increase in the exemption for trucks and trailers from 10,000 lbs. to 33,000 lbs. and 26,000 lbs., respectively, is effective on the day after the date of enactment. The increase of the rate to 12 percent and a shift to the retail level for collection of the tax are effective April, 1, 1983.

3/ Effective January 1, 1984.